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AFIRMA ANNUAL REPORT

PROJECT YEAR I – October 2004-September 2005

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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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I. EXECUTIVE SUMMARY

The Access to Rural Finance for the Microenterprise (AFIRMA) Project, a USAID/Mexico-funded project implemented by Development Alternatives, Inc. (DAI), forms a central part of USAID/Mexico's Strategic Objective (SO): **Increased Access to Financial Services by Underserved Populations**. AFIRMA is designed to help build an inclusive, sustainable microfinance sector in Mexico as a means to increase access to a range of financial services and contribute to economic development. This report describes project activities over the period October 2004-September 2005, project year I. Below is a summary of AFIRMA activities in year I under each of the project's five main tasks:

- **Task 1: Strengthen the institutional capacity of MFIs.** During year I AFIRMA conducted an open selection process, seeking MFI¹ partners capable of expanding access to underserved populations on a sustained basis. Following a series of institutional diagnostics, USAID and AFIRMA staff elected to work with 12 MFIs of varying type, target market, location and mission. Activities in year I focused heavily on this task and AFIRMA was able to establish strong working relationships with the 12 partner MFIs. The project team, supported by a group of national and international consultants, delivered tailored technical assistance to address each institution's priorities. Technical assistance included strengthening internal controls, planning and implementing management information systems, adjusting savings and credit products and methodologies, beginning to develop new products, and strategic and operational planning. AFIRMA takes a holistic approach to assistance, and having gained partners' confidence through initial activities, in year 2, AFIRMA will assist partner MFIs to implement their strategic plans.
- **Task 2: Develop a local, commercially-based MFI support services industry.** AFIRMA began working with a couple of local firms through purchase order agreements in the areas of marketing, information systems, and development of back-office manuals. The project also carried out a survey to understand the demand for support services among partner MFIs. The project will expand on this effort early in year 2 through analysis of the supply of services to determine areas for support, will work with local partners to develop an interactive public database of local firms and consultants, and will contract with local providers for certain technical assistance needs under Task 1.
- **Task 3: Support innovations to expand access to rural finance & remittances.** Through much of year I the grant program was on hold while USAID contracts officers determined whether grants could be issued under an AMAP contract. The issue has since been resolved, making it clear that AFIRMA can comply within the normal USAID regulations for grants. In quarter 4 of year I AFIRMA and USAID defined plans for this task and the corresponding grant fund. Plans involve launching the activity through a Rural and Agricultural Finance Workshop and subsequent definition of criteria for initiatives to support and launch of the innovation fund.
- **Task 4: Strengthen the capacity of the CNBV and federation committees to supervise RFI and MFIs.** AFIRMA held regular meetings with the *Comision Nacional de Bancos y Valores* (CNBV) over year I in order to coordinate work in this area. At the request of the CNBV, AFIRMA has planned initial diagnostics and technical assistance for Federations that the CNBV has licensed to supervise the popular finance sector in early 2006 (licenses are being granted in the second half of 2005). The project is also planning to co-sponsor a conference bringing

¹ "MFIs" is broadly understood here to mean financial institutions serving microenterprises, rural or other underserved populations.

private sector players together with representatives from the CNBV and Federations and international experts such as AFIRMA subcontractor International Consulting Consortium, to discuss the state of the art in regulation and supervision of microfinance, and its potential applications in Mexico.

- **Task 5: Improve the enabling environment for the rural and microfinance industry.** In year 1, AFIRMA supported the microfinance association ProDesarrollo, co-sponsoring along with the Ford Foundation internal and external audit training for MFIs and their external auditors, as well as other industry trainings. The project supported additional ProDesarrollo training in activity-based costing analysis, and has helped plan and sponsor the annual a leadership training (*Programa Latino Americano de Liderazgo en las Microfinanzas*) to be held in November. AFIRMA also has coordinated closely with the GoM program PRONAFIM on sector initiatives, and conducted a diagnostic of credit information services in Mexico and has agreed to coordinate on this initiative with the *Banco de Mexico* (Central Bank) and the *Comision Nacional de Bancos y Valores* (CNBV – the bank and stock market regulator). Work in year 2 will build upon the solid working relationships established.

Key developments from a **project management** standpoint included:

- DAI mobilized the project team, including the Chief of Party and technical advisors, and established the AFIRMA offices and administrative team in late 2004. AFIRMA was formally established as an “asociacion civil” (an NGO), following the advice of local lawyers. After only a few months of operations it became apparent that the *asociacion civil* status was not the ideal legal form for the project office because it subjected operations to unnecessary tax burdens and difficulty with obtaining visas for consultants. Following advice from better-informed lawyers, DAI began the process of changing the legal status of AFIRMA from an *asociacion civil* to a representative office of DAI, a change which should be complete in late 2005.
- Willy Escobedo joined the long term project team as Senior Microfinance Specialist during quarter 3, following a successful career with Caja Municipal de Ahorro y Credito de Arequipa (Peru), and after productive short-term consulting assignments with DAI in Ecuador and under AFIRMA. He replaced the original microfinance specialist, who DAI and USAID ultimately deemed was not the best fit for the position.
- USAID requested an adjusted budget in order to add the position of Deputy Chief of Party, deemed necessary in order to manage the intense level of technical assistance contemplated as a result of the inclusion of 12 partner MFIs (as opposed to the originally-envisioned 6-7). In July USAID formalized the first contract modification, approving the modified budget and addition of Nathanael Bourns from DAI to fill the position of DCOP.
- On August 25, 2005 the project held a one-day retreat to initiate planning for year two of AFIRMA, focusing on the tasks cited above and establishing agreement on the team’s vision for each one. Present at the retreat were USAID CTO Geoffrey Chalmers, AFIRMA Chief of Party Fernando Fernandez, Senior Microfinance Specialist Willy Escobedo, Deputy Chief of Party Nathanael Bourns, Training Specialist Claudette Martinez, Administrative Manager Adriana Cedillo, and USAID/AFIRMA Intern Virginia Brandon. The retreat formed the basis for AFIRMA’s year 2 work plan.

2. INTRODUCTION

The Access to Rural Finance for the Microenterprise (AFIRMA) Project, a USAID/Mexico-funded project implemented by Development Alternatives, Inc. (DAI), forms a central part of USAID/Mexico's Strategic Objective (SO): **Increased Access to Financial Services by Underserved Populations**. AFIRMA is designed to help build an inclusive, sustainable microfinance sector in Mexico as a means to increase access to a range of financial services and the. The project's main goal can be summarized as:

"To contribute to the development of a dynamic, effective microfinance sector in Mexico that provides sustainable financial services to under-served urban and rural market segments, helping them manage risk and contribute to economic growth."

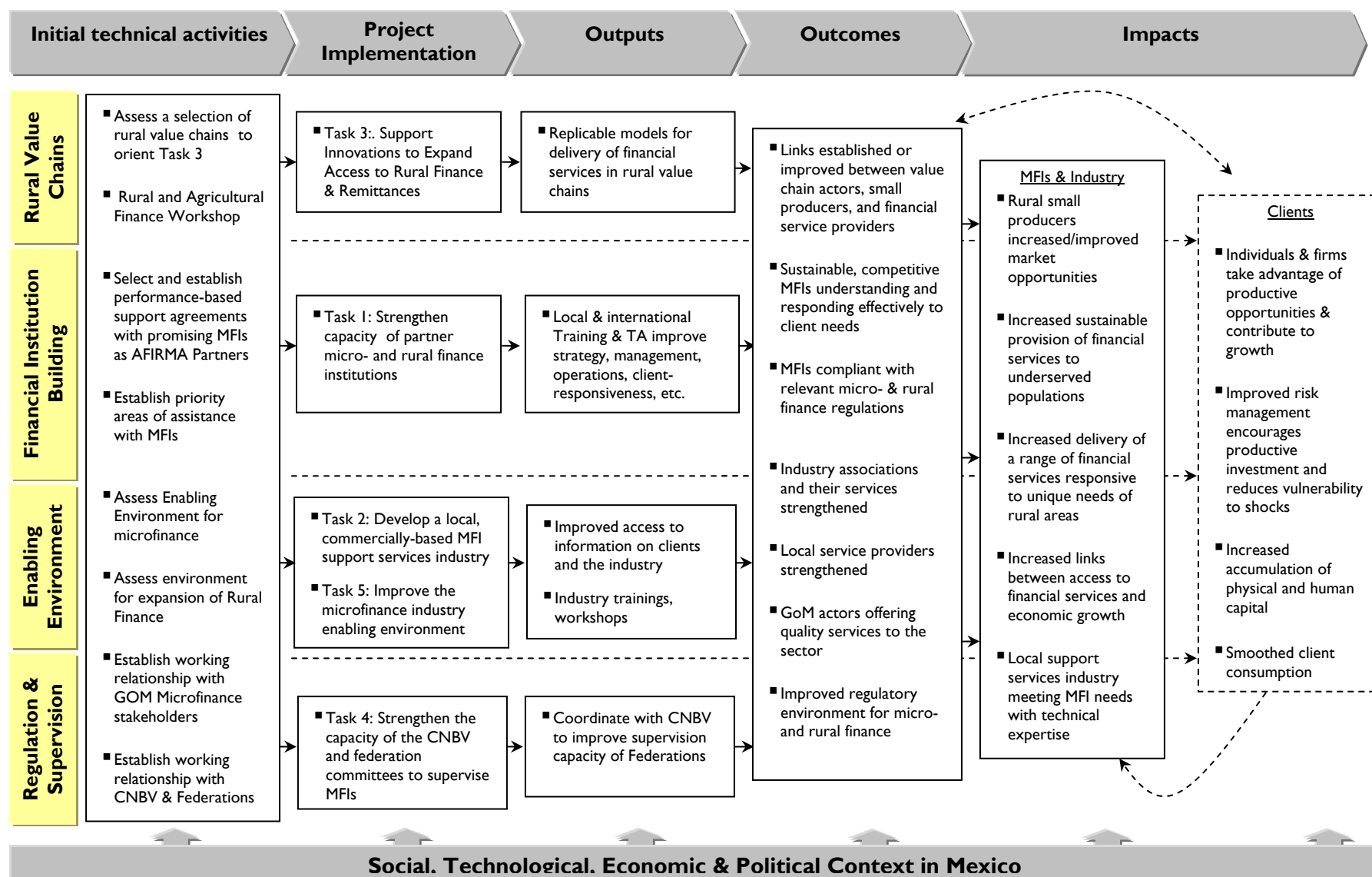
The AFIRMA Contract Scope of Work (SOW) and Year One Workplan outline five distinct, interrelated tasks:

1. Strengthen the institutional capacity of MFIs;
2. Develop a local, commercially-based MFI support services industry;
3. Develop innovative products and technologies that expand access to rural financial services and remittances;
4. Strengthen the capacity of the CNBV and federation committees to supervise RFI and MFIs; and,
5. Improve the enabling environment for the rural and microfinance industry.

These tasks and their relationship to each other and to the ultimate goals of the project are depicted in Figure 1 below. One important result of the AFIRMA planning process held in August 2005, is that in order to maximize the impact of project resources (human, financial and time) the team must further integrate project components as more time and resources are dedicated to tasks beyond institution-building.

Progress towards each of the five tasks over year 1 and key priorities for year 2 are presented in the next section. Following that is a description of project management over the quarter, including a summary of project finances.

Figure I – Causal Model from the AFIRMA Performance Monitoring Framework



3. AFIRMA WORKPLAN IMPLEMENTATION

Early in year one, AFIRMA and USAID CTO Jeremy Smith met with various microfinance institutions and stakeholders around Mexico to present AFIRMA and the project team. The team also worked together to develop the annual work plan for AFIRMA based on the contract scope of work. Consistent with the work plan, project activity during year 1 was most intense under Task 1 – *Strengthen MFI institutional capacity*, although the project team also undertook significant activities under tasks 2 and 5. In year 2, AFIRMA will launch activities under tasks 3 and 4, while maintaining the intensity of microfinance institution-building activities.

3.1 TASK 1 – STRENGTHEN MFI INSTITUTIONAL CAPACITY

In AFIRMA's efforts to support increased outreach, it strives to strike a balance between the breadth of outreach, in terms of the number of new clients served, and the depth of outreach, in terms of the poverty level and geographic location of clients. The project strategy to work with institutions of various types, sizes and target markets, and the diverse institutional development needs of these institutions, illustrate the potential trade-offs between achieving the greatest number of new clients with access to service (project goal is 500,000) and working with poorer and rural clients, where total growth may be slower and where institutions may require substantial capacity-building before emphasizing growth. As a result, choosing the simplest path to achieve quantitative targets is not an option. Factors such as geographic market, marginalization of target clientele and outreach in terms of providing financial services where they are most difficult to deliver, as well as potential growth in the breadth of outreach are all factors that AFIRMA has considered in year 1, and will continue to consider in prioritizing assistance.

In addition to the factors mentioned above, the principles on which AFIRMA works are:

- The activities AFIRMA supports **must respond to a well-thought-out business plan** for each partner over which the institution feels ownership and which addresses its needs and capacity for sound growth and sustainability. Experience shows that one-off consultancies and trainings that are not founded on a broader strategy tend to have little long-term impact. AFIRMA partners will all carry out strategic and business planning (some with direct AFIRMA assistance) early in project year 2.
- AFIRMA takes a **demand-based approach** to working with institutions, responding proactively to the needs of each institution individually within the framework of well-thought-out business plans and within project objectives, while recognizing the need to maintain **flexibility** given that market conditions, and hence institutional needs, can change quickly.
- Related to the previous point, AFIRMA consultants should be **facilitators of change**, but the partner institutions themselves must take ownership of the processes and of the changes themselves for the support to be effective in the long term.
- **Continuing support is based on results**, responsiveness and openness to change within each partner, as well as each partner's demonstrated capacity to absorb assistance.

One of the primary goals for year 1 was to identify AFIRMA Partner MFIs and develop assistance plans for key areas, with the ultimate goal of increasing and improving their delivery of financial services to

greater numbers of clients. To this end, the AFIRMA team worked with USAID on the following activities:

- **AFIRMA Team Presentation.** In order to launch Task I, AFIRMA invited a broad range of MFIs to a presentation of the project, held in December 2004 at the Sheraton Hotel in Mexico City. The presentation brought in 90 participants from 59 institutions linked the microfinance and popular finance sector. The main presenters were USAID CTO Jeremy Smith, Chief of Party Fernando Fernandez, who presented the project and the objectives of the meeting and the selection process and criteria, and Dr. Claudio González-Vega of the Ohio State University and Juan Buchenau, an international microfinance expert from Mexico, who presented on technical topics.
- **Partner MFI Selection Process.** AFIRMA received applications from interested MFIs by the January 15th, 2005 deadline and worked with USAID CTO Jeremy Smith to pre-select a group of 12 MFIs for quick on-site diagnostics. AFIRMA conducted diagnostics of the 12 MFIs shown in Table I that AFIRMA and USAID judged to meet established criteria.
- **Partnership Agreements.** Following presentation of results of the diagnostic to CTO Jeremy Smith and Barry Lennon from the USAID/Washington Microenterprise Office, AFIRMA and USAID/Mexico signed standard performance-based partnership agreements with all 12 MFIs that received an AFIRMA diagnostic (shown in Table I below). Although some of the twelve clearly had greater institutional capacity to grow on a sustained basis, others were attractive because they serve markets that are particularly difficult to reach, and therefore un-served by others. Through the agreements, AFIRMA and USAID ask MFIs to commit to:
 - Present data and financial information for the purpose of quarterly monitoring;
 - Present a counterpart contribution for each of the areas identified for priority technical assistance from AFIRMA;
 - Undertake external rating, carried out by an internationally recognized rating firm; and
 - Participate in regular planning meetings, including contribution to the annual work planning process.
- **Initial Prioritization of Technical Assistance.** Having previously selected 12 MFI partners and identified priority areas for assistance, AFIRMA identified and mobilized consultants with expertise relevant to each institution's needs.

Table I – AFIRMA Partner MFIs

Institution	Legal Structure	Regulated	Active Borrowers 12/2004	Current Areas of Focus
1. FIMEDER	S.A. de C.V.	No	1,090	Individual and Solidarity Group lending in semi-urban areas of the State of Mexico and in DF
2. AISol	Asociación Civil	No	3,606	Grameen Bank group lending methodology in rural Chiapas
3. DESPEN0	S.A. de C.V.	No	5,444	Solidarity group lending and agricultural lending (primarily through FIRA) in Sinaloa,
4. CADEMI	Asociación Civil	No	6,048	Urban & semi-urban village bank lending in San Luis Potosí, Matehuala, Zacatecas
5. AMUCSS	Asociación Civil	No	6,393	Individual & Solidarity Group lending. Network of 7 Microbanco in Semi-urban and rural areas of Oaxaca, Puebla, Hidalgo, Guerrero, Morelos & Michoacán
6. Fondo 5 de Mayo	Asociación Civil	No	7,587	Solidarity Group lending in southern part of the State of Puebla
7. Pro Mujer	Asociación Civil	No	11,933	Village bank lending in semi-urban areas of the States of Hidalgo and Queretaro
8. FINCA	Asociación Civil	No	22,374	Village bank lending in semi-urban areas of the States of Morelos, Guerrero, & Puebla
9. FinComún	Unión de Crédito	Yes	26,832	Savings, solidarity group/individual lending around Mexico City
10. CAME	Institución de Asistencia Privada	No	59,036	Village bank and individual lending in urban and semi-urban areas of the State of Mexico and the DF.
11. Caja Libertad	Cooperativa de Ahorro y Préstamo	No	235,068	Traditional credit union savings and loan products. National Coverage in urban and semi-urban areas. Total members of the credit union shown here.
12. Compartamos	SOFOL	Yes	309,637	Village bank and individual lending with national coverage, although concentrated South of DF.

Below is a summary of AFIRMA support for each partner in project year I. Performance indicators as of September 2005 are presented in Annex A.

3.1.1 FIMEDER

FIMEDER is a relatively young MFI offering group loans which, unlike most, has invested heavily in back office processes and systems prior to attaining a size to justify the investments. The AFIRMA diagnostic indicated that the FIMEDER board of directors is well respected and has a clear vision of the MFI's future, staff are motivated to carry out their jobs, and the systems are in place for the institution to grow significantly, but that FIMEDER needed to grow aggressively to reach sustainability. The diagnostic further indicated that staff would benefit from exposure to well developed microfinance operations, as a first step towards improving efficiency and productivity, that an overall human resources strategy was required, and that adjustments to the methodology and products were needed to ensure that services correspond to market needs.

Before beginning technical assistance plans COP Fernando Fernandez took FIMEDER General Manager Norma Rodriguez, Commercial Director Marco Estrada, and Branch Manager Yanet Velasco to Ecuador to visit Banco Solidario, Banco Procredit, Banco Guayaquil, a national credit bureau, and the Ecuadorian Superintendency of Banks to see microfinance run efficiently in another setting. Following the trip, AFIRMA developed an aggressive technical assistance plan for growth, including intensive training on sales techniques for loan officers delivered by Peruvian microfinance training specialist Mauricio Lerner, and training in individual lending for managers and staff delivered by AFIRMA consultant Vicente Avalos.

In coordination with these activities Mexican Banking HR specialist Vayda Sosa has begun reviewing FIMEDER's administration of human resources with emphasis on processes related to loan officers.

In quarter four the level of technical assistance was intense, with multiple consultants working with the institution at a time, which proved a burden on FIMEDER coordinators. Future assistance will be spread out more evenly. In year 2 AFIRMA will support FIMEDER to:²

- Conduct strategic and business planning process
- Improve Human Resources administration
- Develop and pilot and individual lending product.

Based on the planning process, AFIRMA will determine other priority areas for support.

3.1.2 AISol

Alternativas Solidarias de Chiapas (AISol), an NGO using the Grameen group lending methodology based in San Cristobal de las Casas is focused on serving indigenous women in the state of Chiapas, many of whom live in rural areas and do not speak Spanish. AFIRMA assistance in year 1 (and continuing in year 2) is focused on building the foundations for future growth and continued penetration in rural under-served markets.

AFIRMA worked with AISol General Manager Katia Corroy to define the first area for assistance – adjustments to products and the lending methodology – and mobilized Viviane Romero, a consultant with substantial group lending experience from time spent working for and advising Crecer, one of Bolivia's successful village banking institutions with substantial operations in rural areas. Ms. Romero highlighted important areas for improvement in the lending methodology, which AISol has addressed proactively in coordination with AFIRMA. She also indicated the need to undertake more rigorous strategic and business planning, and recommended that the project assist with planning.

It also became clear through interaction with AISol that the institution would benefit from ongoing assistance from a microfinance operations specialist with substantial experience managing microfinance operations to help over an extended period, and to train the individual who will take up the position of operational manager, which is currently vacant.

AISol implemented many of the recommended changes on their own, and have begun strategic planning, part of which involves their conversion to a *Sociedad Financiera Popular* (SOFIPO), to be regulated under the *Ley de Ahorro y Credito Popular* (LACP) which will enable them in the long-term, once prepared, to legally take deposits.

In year 2 AFIRMA will support AISol to:

- Carry out strategic and operational planning
- Implement operational modifications and train new Operations Manager
- Improve audit and internal control
- Determine options for legal structure and possible transformation to a SOFIPO.

² Only the general themes of support are provided here. For detailed plans for each institution, see AFIRMA Year 2 Work Plan.

3.1.3 DESPENO

Despeno is of particular interest to AFIRMA due to its agricultural lending experience, in-depth knowledge of the rural economy of Sinaloa, and to the fact that it is capitalized by private investors. Changes in the way that the GoM program FIRA operates (elimination of what was previously a 90% guarantee on agricultural loans made with a FIRA line of credit) have caused major shift from Despeno's focus on agricultural lending towards traditional solidarity group lending to urban and semi-urban microentrepreneurs.

The AFIRMA diagnostic indicated that Despeno's credit methodology required significant adjustments prior to growing the credit portfolio substantially. AFIRMA brought in Claudia Ordóñez, who has worked with DAI intermittently over the last 5 years as an operational expert in microcredit methodologies, to identify and begin to address holes in the current methodology. Ms. Ordóñez's support was well received – Despeno showed complete openness to her recommendations and will continue working with her to implement changes in the methodology.

Another area in need of support is human resources. Ms. Ordóñez pointed out that Despeno requires a human resources strategy in line with the institution's growing emphasis on microcredit. In quarter four AFIRMA brought in Eliana Otondo, a human resources expert who has experience in microfinance in Mexico, Bolivia and India, to refine Despeno's approach to human resources (which until recently involved outsourcing most positions, including loan officers, to independent contractors).

In year 2 AFIRMA will help Despeno with the following activities:

- Conduct strategic and business planning
- Implement credit methodology improvements
- Implement the human resources strategy
- Visit successful microfinance institutions on an observational study tour for microcredit staff.
- Improve audit and internal control
- Determine and assist with Management Information System (MIS) needs.

3.1.4 CADEMI

Although recently established, CADEMI's has had financial success, grown quickly, and has aggressive future growth plans. The board of directors and management of CADEMI share a clear mission and commitment, and have private equity invested in the institution. CADEMI reached financial sustainability in only 1.5 years, through ambitious growth and consistently improving productivity. Further diversification into products beyond village banking will be necessary in the medium-term, as will further systematization of operational policies and procedures. Also, CADEMI's current management information system will not support planned growth and diversification, and has significant limitations with respect to monitoring risk in the portfolio (cannot calculate the standard portfolio-at-risk indicator) nor will it permit some of the necessary operational adjustments.

In year 1 AFIRMA consultant Carlos Paredes hosted General Manager Antonio Fonte in Peru where they reviewed options for management information systems and visited microfinance institutions that had implemented the systems. Depending upon CADEMI's MIS needs, as determined through the planning process, AFIRMA will consider assigning Carlos Paredes to help CADEMI define its system requirements, after which AFIRMA would determine the project's level of effort in support of selection,

customization, testing, implementation in parallel and roll-out, ensuring that the new system can meet new operational needs and produce information necessary for proactive management of microfinance operations (e.g. portfolio-at-risk per credit officer as of 1 day of delinquency).

AFIRMA brought in Ramiro Carrasco of Quisqueya Finance, who participated in the AFIRMA diagnostic phase, to review CADEMI's institutional infrastructure and lending methodology in order to support the institution's aggressive growth strategy. Mr. Carrasco's main findings were that CADEMI needs to adjust its institutional framework and credit product and process in order to better adapt to the market, and to tailor products to client needs. These elements become increasingly important as competition increases, as it has in San Luis Obispo. Mr. Carrasco's recommendations were well received and CADEMI has requested to work with him in other priority areas.

In year 2 AFIRMA will assist with the following activities:

- Support strategic and business planning process
- Adjust of group lending credit methodology
- Develop individual lending product
- Improve internal controls
- Determine options for legal transformation under the LACP.

Another potential area of support is in MIS improvements, although this work will require further definition early in project year 2.

3.1.5 AMUCSS

AMUCSS is a network of 7 *Microbancos* which operate somewhat independently, providing savings, credit and other services in isolated rural areas in southern Mexico, often in areas where there are no other financial service providers. AMUCSS lacks consolidated accounting for the group of Microbancos and the current structure and lack of reliable information complicate board functioning, financial management and decision-making overall. The Ford Foundation has supported AMUCSS with funding and technical assistance for most of the institution's existence and AFIRMA has coordinated and will continue to coordinate efforts with David Myhre of the Ford Foundation.

In quarter 3, AFIRMA began supporting information system implementation through a local firm, CTI, to help AMUCSS standardize accounting systems to improve quality and timeliness of management information, and it will be important to continue this process of improving accounting and management information. The project also sponsored management training for AMUCSS microbank managers through a local service provider, cost-sharing participation of 10 middle managers in general management training.

In quarter 4 AFIRMA mobilized internal control specialist Martin Yedra, a local consultant, to help AMUCSS to implement greater internal controls among the 7 rural microbanks of AMUCSS. Rafael Tejeda of AFIRMA subcontractor Quisqueya Finance, who participated in the diagnostic phase and subsequently provided training through ProDesarrollo on internal and external audit standards, is working with Mr. Yedra to ensure that AMUCSS follows best practices in its implementation of internal controls.

AMUCSS is beginning to focus on the serious structural, operational, and financial management challenges that it faces in its network of *microbancos*. AFIRMA will continue to support efforts to

improve internal control and financial reporting through STTA from Rafael Tejeda, local accountant Martin Yedra, and a small purchase order with CTI to help implement the information system.

In year 2 AFIRMA will assist with the following activities:

- Continue to support implementation of operational standards and basic financial management
- Continue to support implementation of the Management Information System
- Support strategic and business planning
- Clarify Structure and Governance of the Red de Microbancos
- Provide management training for the managers of Microbancos.

3.1.6 Fondo 5 de Mayo

Fondo 5 de Mayo (F5M) provides solidarity group loans and other financial and non-financial services to microentrepreneurs in the state of Puebla. In the past, F5M has invested heavily in internal control systems, including ISO 9001 certification, and has built a qualified management team. F5M also has segmented the market for their remittance products (*Poblanos* living in certain neighborhoods in the US) and agreements with 10 of the main international remittance operators, but the product has yet to generate a significant revenue stream.

Rigidity in the methodology, while positive from the perspective of risk management, has implied high costs and has impeded necessary adjustments to the main product (solidarity group loans) and restricted growth. The current IT conversion has also been slow and over budget. The combination of these factors and the cross-subsidy of the F5M training programs and infrastructure have led to high operating expenses.

In May, DAI Microfinance Consultant Robin Young began working with F5M on a comprehensive diagnostic of the institution's solidarity group loan product. Her recommendations, based on discussion and surveys with staff and clients, involve increasing the flexibility of lending operations in order to increase productivity and client responsiveness, developing a pilot individual lending product, improving staff incentive schemes, and carrying out a comprehensive strategic and business planning process (beginning in October with strategic planning specialist Alex Silva). F5M has responded positively to recommended changes.

In June, Fondo 5 de Mayo (F5M) hosted a Visit from USAID Deputy Administrator Fredrick Schieck, USAID/Mexico Mission Director Ed Kadunc, CTO Elizabeth Bauch, and Financial Specialist José Luís Vásquez, members of the AFIRMA team and others at their headquarters in Puebla. F5M President Manuel Alonzo and the management team accompanied the USAID group to visit microenterprise clients and a F5M branch office, followed by the formal recognition of AFIRMA support to F5M through a press conference with the Governor of Puebla Lic. Mario Marín Torres.

AFIRMA Training Specialist Claudette Martinez coordinated F5M's study tour in July to Peru. F5M Management visited MiBanco, Caja Municipal de Ahorro y Credito de Arequipa with DAI's microfinance consultant Carlos Paredes (a Peruvian citizen) who facilitated the entire the tour. Also in July, DAI's Senior IT specialist Gabor Simon worked examined options for the MIS, given changes recommended through Ms. Young's work. Additionally, in order to define adjustments to the lending methodology, AFIRMA contracted Katie Kohlstedt, a junior American microfinance consultant who lives in Mexico, to support Ms. Young in an analysis of the competition in Puebla and to facilitate and analyze client satisfaction surveys.

Although F5M improved its financial position significantly in 2005, the central challenge is to clarify the institution's mission and strategy, to grow, and improve productivity to permit financial self-sufficiency and continued expansion and improvement of services. In year 2 AFIRMA will assist F5M to:

- Conduct strategic and business planning
- Train and develop operational staff based on the operational adjustments recommended during Ms. Young's diagnostic of the solidarity group lending methodology and product, and introduction of the planned individual lending product
- Determine options for management information systems – depending upon the F5M planning process
- Develop and pilot individual lending product
- Design and implement an activity-based costing system
- Determine options for governance, organizational and legal structure.

3.1.7 Pro Mujer Mexico

ProMujer Mexico (PMM), an NGO based in Tula, Hidalgo, uses the standard ProMujer methodology of group lending coupled with client training. The AFIRMA diagnostic indicated that the PMM Board of Directors and Management show strong commitment to client service, sustainable growth, and to their improving financial condition, but that PMM faced important challenges in their back office systems (especially the MIS) and organization. Operations are currently highly centralized at headquarters in response to limited capacity of field office personnel, which presents operational inefficiencies and lower-than-optimal productivity. It was also noted that PMM required better understanding of client perceptions of PMM and its services. PMM management is aware of internal weaknesses and committed to meeting the challenges they face.

There was a delay in beginning work with PMM due to the PMM board's desire to modify the standard partnership agreement that AFIRMA and USAID signed with each institution. Following PMM's consultations with its board and AFIRMA's consultations with USAID, PMM elected to sign the standard agreement.

PMM showed openness to AFIRMA assistance once the partnership agreement was signed and work began with DAI consultant Hillary Miller-Wise devising a comprehensive approach to market research including, among other elements, analysis of competition, branding, and client satisfaction. Ms. Miller-Wise coordinated with ProMujer to carry out a competitive bidding process to hire a local marketing firm to support this work. The marketing and market research firm SERTA was selected to help implement the market study following a competitive bidding process based on price and technical criteria.

Hillary Miller-Wise led a team consisting of AFIRMA Associate Brooke Jones³, the DAI Associate responsible for AFIRMA in the DAI home office, and SERTA, to develop a marketing study and strategy which will be completed in year 2. Other needs became apparent during this process, including the need to review PMM's human resources management, operational processes and, as signaled in the

³ Time for Ms. Jones has been covered through DAI overhead since, despite significant experience in marketing for village banking, she does not have the sufficient years of experience to fit the AMAP category description for a level 3 (junior) consultant. She will reach this level of experience in 2006, and assuming continuing need, AFIRMA would begin billing her time spent on technical deliverables.

AFIRMA diagnostic phase, overall information management and the need for further decentralization of processes.

In year 2 AFIRMA will assist ProMujer to:

- Finalize the market study and marketing strategy
- Participate in strategic planning – ProMujer International supports a planning process each year with its affiliates and will bring in Jenny Dempsey to facilitate the process. Nathanael Bourns will participate in the process in order to ensure that AFIRMA activities are consistent with the PMM strategy and to define the AFIRMA work plan with PMM
- Develop a human resources strategy
- Determine and document back office processes within the process of institutional decentralization .

Based on the results of the strategic planning process, AFIRMA will determine other priority areas for support, possibly to include support in management information systems.

3.1.8 FINCA Mexico

FINCA Mexico, an affiliate of Washington DC-based FINCA International, uses the standard FINCA village banking methodology and has a clear vision and mission, with staff who are committed to institutional goals. During the AFIRMA diagnostic it was clear that the institution's new General Manager Gonzalo Puente has been the main driver of the institution's rapid expansion over the past two years, and is aware of the areas of greatest need for assistance. FINCA Mexico does not have local membership on its board, is limited in its product offering (standard FINCA village bank product) and the methodology as implemented in FINCA Mexico would benefit from further refinement and systematization.

FINCA Mexico was particularly proactive in requesting AFIRMA support, and the project provided intensive assistance in Year 1 in support of FINCA's rapid growth. Johnny Velasco a Bolivian specialist in lending methodologies, with emphasis on the village banking methodology began work with FINCA in July (following a delay due to visa issues with the Mexican Consulate in Bolivia). Mr. Velasco carried out a comprehensive review of internal processes and procedures, streamlining them where possible. He also developed an operations manual including the recommended operational procedures, and trained staff on the new procedures and manual.

AFIRMA also contracted local firm *Servicios Internacionales de Negocios* (SIN) to develop a full set of back-office (administrative) manuals and brought in DAI IT consultant Carlos Paredes to help with IT planning and information security.

Given the positive response to assistance and current needs to further systematize processes and consolidate adjustments during a period of rapid growth, AFIRMA will continue providing intensive assistance in year 2. AFIRMA will coordinate with Ivana Fertziger, the recently-arrived EMDAP resident (sponsored by USAID/Mexico). Ms. Fertziger's primary responsibilities will be to coordinate with AFIRMA-sponsored initiatives and consultants, and to evaluate the managerial operations staff and design a systematic training program for branch managers and supervisors. This second responsibility may overlap with Johnny Velasco's responsibilities once is a longer-term resident advisor, as is planned. The two roles are distinct (Mr. Velasco's role being more senior and based on more operational experience)

- but the impact of both advisors will be greater if they work in close coordination. AFIRMA will assist in this regard through its regular interactions and coordination with FINCA.

In year 2 AFIRMA will assist FINCA Mexico to:

- Train operational staff and new operations manager through assistance from resident advisor Johnny Velasco⁴
- Conduct IT support and planning. FINCA has recently completed implementation of the latest version of SIEM, the MIS used by all FINCA affiliates. Given that local staff now has time to dedicate to other IT needs, Carlos Paredes, who worked closely with FINCA in year 1, will continue his work on IT security and planning
- Develop individual lending product
- Design and implement an activity-based costing system
- Determine options for the Legal Structure and Transformation to a SOFIPO.

3.1.9 FinComún

In year 1 FinComún converted from a Union de Credito to become the first *Sociedad Financiera Popular* (SOFIPO) under the *Ley de Ahorro y Credito Popular* (LACP – Popular Savings and Credit Law). FinComún is one of only two AFIRMA partners that currently mobilize voluntary savings, although funding has come largely from high balance deposits held by individuals that might be considered social investors, and from government program funding (e.g. ProNafim). FinComún has grown substantially in recent years and management recognizes the need to diversify and build its funding sources, especially considering that government funding could change significantly with the political process in 2006.

In March 2005, following intensive preparations by USAID/Mexico CTO Elizabeth Bauch and Financial Analyst José Luís Vásquez, in coordination with AFIRMA (among others) FinComún received a visit from US Secretary of State Condoleezza Rice. Secretary Rice publicly announced USAID's commitment to the sector through the AFIRMA project and, reportedly, enjoyed her visit with FinComún staff and clients.

Given FinComun's planned growth and current sources of funding, the MFI has identified increased savings mobilization as a long-term priority. AFIRMA worked with FinComun General Manager Vicente Fenoll to develop a scope of work and identify a consultant to assist them with their savings approach and products. AFIRMA brought in Willy Escobedo, former General Manager of *Caja Municipal de Ahorro y Credito Arequipa* to do a savings product diagnostic and help FinComun adjust their approach and products. Mr. Escobedo's work exceeded expectations established in the scope of work. In addition to the work outlined in his SOW that included proposed changes to FinComun's savings products, Mr. Escobedo made specific, practical recommendations on FinComun's overall approach to savings mobilization. His work was very well received among FinComun management.

Another priority area identified with FinComun was the need for a comprehensive risk management approach. AFIRMA identified Risk Management Expert Max Errazuriz, a Chilean expert who has worked with DAI on the USAID-funded microfinance project in Ecuador, to help FinComun improve its approach to risk management. Mr. Errazuriz will continue to work with FinComun in year 2 to implement a risk management unit.

⁴ See "Memoria de reunion – Consultores residentes" based on AFIRMA meeting with USAID CTO Geoffrey Chalmers on Sept. 20, 2005.

In year 2 AFIRMA will assist FinComún to:

- Support strategic and business planning process
- Implement an activity-based costing system – Milagros Chiappe will return in early in Year 2 to help establish a costing standards compatible with the MIS FinComún is implementing
- Implement Credit methodology and product improvements to improve portfolio quality
- Establish a risk management unit. Max Errazuriz will return following the strategic planning activity to help FinComún establish a risk management unit, building upon his recommendations in year 1.

Based on the planning process, AFIRMA will determine other priority areas for support.

3.1.10 CAME

CAME, an NGO using the village banking methodology based in Mexico City is one of Mexico's largest MFIs in terms of number of credit clients. The AFIRMA diagnostic highlighted that CAME has shown substantial growth over the last year, and has ambitious growth targets for coming years, and that staff and management are well prepared. However, there has been high loan officer and administrative staff turnover coupled with a high level of client dropout, and there adjustments are necessary to diversify the product offering from the currently predominant village banking product to better meet client needs.

CAME requested assistance in implementation of the management information systems (MIS), a priority area identified during the diagnostic, and AFIRMA's initial focus with CAME was to assist with final implementation of the FinMas MIS software (purchased from Bolivian provider Innova). CAME and AFIRMA identified Miguel Angel Garcia, who has experience with Innova and has worked with CAME in the past. The first stage of the implementation advanced well, and will continue in Year 2.

Despite progress on the IT support, work with CAME was slower than what AFIRMA had originally hoped. AFIRMA and CAME held regular meetings, defined scopes of work, and identified consultants, but in multiple cases, the final step of definition of consultants and timing has not worked. In part, this was due to bad luck in scheduling consultants and differing points of view between the CAME and AFIRMA on appropriate consultants for a given job. Whereas before, AFIRMA was asked to coordinate with other external consultants who, although well intentioned, did not have decision-making authority, AFIRMA recently held productive meetings to prioritize projects directly with the President and General Manager, giving strong indication that the projects will advance as agreed.

In year 2 AFIRMA will assist CAME to:

- Finalize implementation of the FinMas management information system
- Develop an operational growth strategy
- Adjust the credit methodology and operations of the commercial area
- Determine options for the legal structure and potential for transformation to a SOFIPO.

3.1.11 Caja Libertad

Caja Libertad, a credit union with nation-wide presence, shows potential for entry and growth in the microfinance market, as it expands upon the current focus on salaried members of the credit union.

Caja Libertad has a solid image, good financial performance, nationwide coverage, processes certified ISO 9001, and a technological infrastructure that can support expansion and new microfinance products. The diagnostic team recommended comprehensive support for Caja Libertad to develop a business plan for microfinance, develop new products, and (provided there is high-level buy-in to the plan) technical assistance and training required to successfully implement the business plan.

As a first activity with AFIRMA, COP Fernando Fernández took Services Director César Izurieta Moreno, Operations Manager Francisco Ramírez García, Credit Manager Raúl Martínez de la Piedra, Credit Process Specialist Bertha Obregón and Marketing Manager Susana León Hernández on a study tour to Ecuador, where they met with Banco Procredit (formerly Sociedad Financiera Equatorial - SFE), Banco Pichincha, Banco Guayaquil, Cooperativa COOPROGRESO, Credit Bureaus and the Ecuadorian Superintendency of Banks. Having returned from Ecuador with new ideas about how to serve microenterprises from its existing presence in Mexico, Caja Libertad initiated internal planning to develop and launch a microcredit product. DAI microfinance and banking consultant Robin Bell and Fernando Fernandez held meetings with Caja Libertad to define a strategy to roll out microfinance products.

Another priority area for Caja Libertad in year 1 was their relative mismatch of the tenors of assets and liabilities. In general terms, Caja Libertad was mobilizing short-term savings (savings deposits) and making 2-3 year loans, on average. Part of this mismatch can be addressed with the addition of a microcredit product that is shorter in term (6-months, for instance). On the liability side, in quarter 4 AFIRMA assisted with adjustments to Caja Libertad's savings products with help from AFIRMA savings specialist Vicente Avalos.

In year 2 AFIRMA will assist Caja Libertad to:

- Develop a pilot microcredit product – Robin Bell will continue to work with Caja Libertad to design and implement a microcredit pilot product in 4-5 branches, and later in the year, depending upon results, to roll-out the product. It will be important to ensure that the product being designed is understood and has the commitment of the highest levels of the organization and that it fits with the organizational strategy
- Conduct a diagnostic of risk management – AFIRMA risk management specialist Max Errazuriz will carry out a risk diagnostic and determine the possibility of assisting CL to establish a risk management unit
- Conduct feasibility analysis for a remittances product.

Other activities will be defined depending upon Caja Libertad's strategic priorities.

3.1.12 Compartamos

The leadership of Compartamos has built a shared vision and mission across all levels of the organization, helping it grow to be one of the largest, most profitable MFIs in Latin America. Compartamos invests heavily in training staff, particularly loan officers, which has made it somewhat of a target for other MFIs seeking qualified loan officers. The MFI has very good understanding of its target market and is working to diversify its product offering. Further work is required to expand individual lending and other products. Compartamos simultaneously undertook a series of major initiatives in 2005, most notably conversion to a bank to permit savings and other products, a product very different from anything it currently offers, and implementation of a new MIS (Temenos).

Compartamos has had a great deal of success with its primary product “Generadores de Ingreso” the village bank lending product. Consistent with their strategic plan and the AFIRMA diagnostic, Compartamos identified the need to develop new products and to improve overall efficiency and productivity. AFIRMA, through subcontractor Acción International, of which Compartamos is an affiliate, began addressing these areas in year 1.

The Acción team, led by Acción Vice President Monica Brand, includes product development specialists Raul Gomez, and Mery Solares, as well as individual lending expert Wilmer Guevara. The team is working with Compartamos to develop new products for housing improvement, to refine the current individual lending product, improving the efficiency with which it is managed and incorporated into Compartamos’ national branch structure.

As part of the new product development, Ms. Brand will work closely with Compartamos staff not just to develop and refine products, but also to train staff on the *process* of new product development so that it is internalized and that future products can be developed internally.

As mentioned earlier, Compartamos also has begun the process of conversion from a specialized finance company (SOFOL - *Sociedad Financiera de Objeto Limitado*) to a bank, and will likely obtain a banking license in mid-2006.

In year 2 AFIRMA through AFIRMA subcontractor Acción International will continue to assist Compartamos to:

- Increase Efficiency and Productivity, especially of the individual lending product
- Develop an internal process and capacity for new product development
- Develop a housing improvement product

In late 2005 AFIRMA will work with Compartamos to determine other areas where AFIRMA may be of assistance. One possible area is in developing the internal capacity to design, deliver and manage savings products once Compartamos has converted to a bank. Any work in the area of savings will be coordinated with WOCCU, who has a resident advisor currently working on Compartamos’ future savings products.

Another potential area – following conversion to a bank – might be rural and agricultural lending. Although Compartamos has little experience in this area, the institution is interested in the idea, has the capacity, an expansive branch structure and strong in-house training program, all of which would facilitate a well-planned expansion into a new line of business.

3.2 TASK 2 – DEVELOP A LOCAL, COMMERCIAL-BASED MFI SUPPORT SERVICES INDUSTRY

A local support services industry is critical to the growth of rural and microfinance in Mexico, and AFIRMA will build upon and improve the supply of training, technical assistance, audit, research, product development, and other services that MFIs demand.

In year 1, in order to better understand the market for local services to MFIs, microfinance specialist Ricardo Calvo of Acción International and USAID/AFIRMA intern Virginia Brandon carried out a survey of the demand for local support services among partner MFIs and confirmed results with other industry

stakeholders. The areas of greatest strategic importance, according to the 11 MFIs responding to the survey were, in order of importance:

- Planning and strategy
- Product design and adaptation
- Management Training
- Credit Analysis
- Legal Structure
- Operational Training

The primary services currently needed for daily operations were, in order of importance:

- Operational and Management Training
- IT Systems
- Product Design and Adaptation
- Credit Analysis
- Human Resource Management

Furthermore, the surveys highlighted that developing this industry will require focus on both supply and demand, in the sense that MFIs will have to be more demanding of quality service and design results-based contracts with service providers.

During the AFIRMA one-day retreat in August to initiate planning for year two, participants established that task 2 activities will be linked with our MFIs partners under Task 1, partnering qualified local firms and consultants who would benefit from specialization in certain areas with international specialists on certain assignments, as defined in the AFIRMA Year 2 Work Plan.

Task 2 was originally budgeted as a grant fund, but as indicated in the first AFIRMA contract modification, the activities will be run primarily through purchase orders with local firms. A good example of this concept is the work Hillary Miller-Wise and Brooke Jones have done with local marketing firm SERTA through a purchase order cost-shared between AFIRMA and ProMujer. Together, the team is working with ProMujer to develop a comprehensive marketing strategy. This model has teamed a local firm with good general capabilities in marketing with international specialists who understand the nuances of marketing for microfinance.

The development of similar initiatives, building on specialized capacity of local service providers to assist the microfinance industry, while using cost sharing mechanisms to ensure quality services at competitive prices, will be central to Task 2. In year 2 AFIRMA's activities under Task 2 will focus on three lines of action: creating a consultant's database and developing two separate training programs for technical assistance and training providers (firms and individuals), each of which is described briefly below ⁵.

3.2.1 Contracting Local Consultants and Firms

Through a survey carried out by USAID/AFIRMA Intern Virginia Brandon, the project was able to gain a sense of the supply and demand for support services among Task 1 partners. One comment that came up numerous times in the survey and subsequent interviews with industry stakeholders was that information on firms and what they do (or don't do) well is isolated and not widely shared among

⁵ A more complete description is provided in the AFIRMA Year 2 Work Plan.

institutions. AFIRMA will work with ProDesarrollo in an attempt to pool and share information on service providers.

In year 2 AFIRMA will work with local stakeholders to:

- Develop an interactive consultant database working with ProDesarrollo and a local IT services firm
- Design and deliver a workshop on contracting technical assistance, training and other services – based upon findings of the initial survey of local support services mentioned above, partner MFIs would benefit from training on how to develop terms of reference for support services, and to structure and manage contracts for results.

3.2.2 Microfinance Training of Trainers Program

Mexico has substantial general human resources and consulting capacity, but limited specialized consulting capacity for microfinance, and significant differences in quality of services from one region to another. One of AFIRMA's key goals under Task 2 is to strengthening consulting and training firms, universities and research firms in areas such as internal and external audit, training in core operational and back-office areas, and consulting, especially where there is likely to be an ongoing market for the services, such as strategic and business planning, market research, MIS, Accounting, legal structure (LACP), and human resource management.

To the extent possible, efforts under this activity in year 2 will be linked with the institution-building activities under Task 1, will be coordinated with ProDesarrollo wherever possible (taking into account their workload and capacity to coordinate additional efforts) and will focus initially on designing and delivering a training-of-trainers program. To this end, AFIRMA, in coordination with Acción International, plans to:

- Evaluate consulting and training firms – building upon the initial survey AFIRMA conducted in August 2005, and focusing primarily on the current supply of service
- Design and deliver training curriculum and training toolkit based on needs of current local suppliers of technical assistance and training.

3.2.3 Mentoring Program

There is no shortage in Mexico of intelligent, educated, young professionals who, with the right training, could fill positions in AFIRMA partner institutions or work as microfinance consultants. Some such training is specific to each job, but part of the general training that is missing in Mexico is an intensive, practical course that can give young professionals the tools required to add value within the sector.

AFIRMA's approach to addressing this challenge will focus on strengthening independent consultants, trainers, and potential employees of MFIs in the theoretical foundations and practical application of microfinance in Mexico through a microfinance education program for junior consultant trainees. The program will include classroom work and practical application through paid field work (possibly pairing with the GoM required *Servicio Social* work) for qualifying students. AFIRMA will work with other stakeholders to:

- Design program operational manual in coordination with the USAID-funded OSU-CIDE Ties program, including guidelines for program participants and trainers/partner institutions (e.g. AFIRMA, TIES, CGAP, MFMI, GoM Programs) for the activity and submit to USAID for approval

- Carry out first application and selection process for prospective course participants
- Deliver microfinance training program
- Provide practical implementation experience for promising participants.

AFIRMA will monitor performance of the junior professionals through feedback from instructors, senior consultants and partner MFIs and examine how to modify and/or institutionalize the program for project year 3.

3.3 TASK 3 – SUPPORT INNOVATIONS TO EXPAND ACCESS TO RURAL FINANCE & REMITTANCES

Implementation of Task 3 involves a grants-based approach to stimulating the introduction of new technologies, approaches, distribution channels, or other elements that facilitate rural clients' and small farmers' access to appropriate financial services, and to improve institutions' capacities to reach underserved populations, especially rural clients.

For most of year 1 it was unclear whether grants could be issued under an AMAP task order (Accelerating Microenterprise Advancement Project – the indefinite quantity contract under which AFIRMA was awarded). USAID/Washington contracts office determined in project quarter 4 of year 1 that grants may be issued under an AMAP task order, clearing the way to launch Task 3 in project year 2.

Early in year 2 AFIRMA will focus on understanding the possibilities for spurring innovation in the design and delivery of financial services in Mexico, particularly in rural value chains. As discussed during the one-day AFIRMA planning retreat, an adjusted Rural and Agricultural Finance (RAF) workshop, based on those delivered through the USAID/Washington Office of Microenterprise Development, will form the start-up activity for this task, followed by design and launch of the innovation fund, as described briefly below.⁶

3.3.1 Rural and Agricultural Finance Workshop

In year 2 AFIRMA will work with USAID CTO Geoffrey Chalmers in coordination with USAID/Washington to plan the initial workshop, determine specific target audience, roles and responsibilities, and resources to be dedicated to the training. In order to implement the workshop in Mexico, AFIRMA will coordinate with USAID to:

- Adjust RAF workshop material for Mexico
- Deliver modified RAF workshop to 15 -20 participants and generate a short-list of possible actors and initiatives to further develop this task
- Design program plan, potentially to include draft design of the innovation fund, and a “stakeholder’s workshop” as one initial intervention in RAF.

Following the RAF workshop, AFIRMA will determine interest and feasibility in shorter adaptation of the workshop to be held with audience comprising financial institutions, value chain actors, government officials, aimed at facilitating discussion and understanding between these actors.

⁶ A more complete description is provided in the AFIRMA Year 2 Work Plan.

3.3.2 Design and Launch Innovation Fund

AFIRMA will build upon lessons from the RAF to:

- Design the AFIRMA Innovation Fund.
- Launch the Innovation Fund, which will involve a presentation of the concepts behind the Innovation Fund, as well as the evaluation process and criteria, and will make available a simple format to follow for interested parties to present short descriptions of proposed innovations.
- Review technical proposals – a review committee (representatives from USAID, AFIRMA, and an external reviewer) will use established criteria to review proposals and select initiatives to support in year 3.

3.3.3 Identify Areas for Intervention related to the Enabling Environment for RAF

AFIRMA's work on the enabling environment under Tasks 4 and 5 is, for the most part, limited to the regulatory and supervisory framework under the LACP, federation strengthening, and collaboration and support for industry initiatives, to the exclusion of legal and policy issues such as collateral laws, contract enforcement, branch restrictions, etc. This is mostly related to a need to prioritize scarce resources, and the reality of what AFIRMA would be able to accomplish on such complicated and large-scale issues. However, as Task 3 is further developed during and after the RAF workshop, such issues may need to be addressed, since they tend to be more important when discussing rural and/or agricultural finance. Following the RAF workshop AFIRMA and USAID will reassess whether any legal/policy issues related to RAF have emerged as high-priority obstacles worthy of consideration for USAID/AFIRMA intervention, most likely in close coordination with other donors and the GoM.

3.4 TASK 4 – STRENGTHEN THE REGULATORY ENVIRONMENT FOR MICRO- AND RURAL FINANCE

Under this task, AFIRMA will work with the *Comisión Nacional de Bancos y Valores* (CNBV) and Federation Committees to develop supervision appropriate to microfinance. AFIRMA subcontractor International Consulting Consortium (ICC), a firm specialized in financial regulation and supervision in Latin America will play an important role in implementation of this task. Throughout year 1, COP Fernando Fernandez held meetings with Luis Felipe Mariscal of the CNBV. Mr. Mariscal complained that many of the Federations are participating in too many (donor-funded) external activities, distracting them from learning how to perform their duties under the LACP. At the request of the CNBV AFIRMA's assistance will begin in 2006, initially to involve:

- **Work plan with the CNBV.** The Project will coordinate with the CNBV to develop technical assistance and training plans with the Federations.
- **Training program for Federations.** Based on initial diagnostics of the needs of federations, the project will mobilize ICC's **Ramon Rosales**, former Bank Superintendent in Peru and **Miguel Barba**, ICC Senior Legal Advisor, to work with the CNBV to design and deliver a training program for supervisors to whom the CNBV has delegated authority.

Based on planning with the CNBV in early 2006, the project will define further activities.

3.5 TASK 5 – STRENGTHEN THE MICRO- AND RURAL FINANCE INDUSTRY

AFIRMA efforts for Task 5 include supporting initiatives with GoM agencies, private sector stakeholders in microfinance, and other industry initiatives such as improved access to various types of market information. Over the course of year 1 AFIRMA promoted microfinance sector initiatives along with stakeholders within the Mexican Government, such as Financiera Rural, Pronafim, and the Banco de Mexico (Central Bank), as well as with the private sector member associations ProDesarrollo.

Initiatives over the course of the year are divided into three basic categories: initiatives with GoM agencies, Initiatives with private sector stakeholders in micro- and rural finance, and other industry initiatives. In year 2 activities under Task 5 will be along four main lines: market research, support of ProDesarrollo, support and work with GoM microfinance initiatives, and credit information services.

3.5.1 Initiatives with GoM Agencies

DAI Consultants Robin Bell and Miguel Davila carried out a comprehensive diagnostic of the government rural finance company Financiera Rural. The consultants were asked to return to complete areas of the diagnostic that Financiera Rural felt were lacking in detail, specifically, the training needs assessment, and returned to do so under extended scopes of work in July. In year 2 AFIRMA will assist Financiera Rural to design a comprehensive training program.

In year 1, AFIRMA supported ProDesarrollo training initiatives, helped PRONAFIM plan a national conference held in October 2005, conducted a comprehensive diagnostic of Financiera Rural, and is coordinating with the Banco de Mexico (the Central Bank of Mexico) and the CNBV on options for improving credit information services in Mexico.

3.5.2 Initiatives with private sector stakeholders in micro- and rural finance

AFIRMA Training specialist Claudette Martinez worked closely with ProDesarrollo in year 1, developing training events in the following areas:

- Internal control and audit standards – Two international specialists: Alejandro Guevara the manager of internal audit at *Caja Municipal de Arequipa* (Peru) and Rafael Tejada of Quisqueya Finance led the training, supported by local audit firm BDO and local consultant Rene Garcia. This program was cost-shared with The Ford Foundation and was very well received by participants. The program included a follow-up consultancy to accompany the implementation of internal control systems within partner MFIs, for which Alejandro Guevara and Rafael Tejada returned in September.
- Costing Analysis – In coordination with ProDesarrollo, AFIRMA hired costing specialist Lorna Grace in August to adapt and deliver the costing analysis training she helped design with the Consultative Group to Assist the Poorest (CGAP - the donor consortium for microfinance).
- Leadership in Microfinance – As a follow-on to the annual conference that ProDesarrollo organizes on Leadership in microfinance, AFIRMA will contract international microfinance experts Susana Barton of Acción International, Juan Buchenau an expert in individual lending technologies, and Sharon D’Onofrio, a specialist in financial analysis to deliver modules of the leadership program geared towards MFI managers. The leadership conference will be delivered in November 2005.

3.5.3 Other Industry Initiatives

AFIRMA subcontractor The Ohio State University, led by Dr. Claudio Gonzalez-Vega began work on a rapid assessment of the breadth and variety found in rural financial markets in Mexico. The assessment was conducted by a team of researchers from the Rural Finance Program at OSU between June and October of 2005. Dr. Gonzalez-Vega presented the team's research design and approach, and responded to comments and questions from AFIRMA partners at the first project quarterly meeting on July 22, 2005. The OSU team will present USAID and AFIRMA draft reports early in year 2 and Dr. Gonzalez-Vega will coordinate with the project to present findings at the AFIRMA Bi-annual meeting in January 2006. Following presentation of the reports, AFIRMA and USAID will work with OSU and other stakeholders to determine what if any other areas require investigation.

It is also worth mentioning that OSU was also chosen to implement the USAID-funded TIES program in coordination with the Mexican university CIDE, and that one of their tasks will be to develop a microfinance curriculum. AFIRMA will coordinate with OSU and CIDE going forward.

4. PROJECT MANAGEMENT

Over year 1, AFIRMA COP Fernando Fernandez and the local team, with support from DAI home office, coordinated a high volume of national and international consultants to work on the technical tasks outlined above. Key developments in project management during the year included the following:

- **DAI mobilized the project team**, including the Chief of Party and technical advisors, and established the AFIRMA offices and administrative team in late 2004. AFIRMA was formally established as an “asociacion civil” (an NGO), following the advice of local lawyers. After only a few months of operations it became apparent that the asociacion civil status was not the ideal legal form for the project office, because it subjected operations to unnecessary tax burdens and difficulty with obtaining visas for consultants. Following advice from better-informed lawyers, DAI began the process of changing the legal status of AFIRMA from an asociacion civil to a representative office of DAI, a change which should be complete in late 2005.
- **Technical backstopping support from DAI Home Office Microfinance Specialists Hillary Miller-Wise and Robin Young.** Ms. Miller-Wise was assigned to the AFIRMA Project to support technical delivery and worked closely with the project during much of year 1. Towards the end of year 1, Ms. Miller-Wise went on maternity leave, and Robin Young took over technical backstopping support for AFIRMA.
- **Support from DAI Home Office Associate Brooke Jones.** Ms. Jones was assigned to the AFIRMA Project and will work with local AFIRMA staff to ensure the proper procedures are being followed as the project identifies, contracts, and mobilizes technical consultants. Ms. Jones also supported ongoing marketing work with ProMujer, given her experience in this area with FINCA Peru.
- **Addition of Willy Escobedo as Senior Microfinance Specialist.** Mr. Escobedo replaced Guillermo Caal, strengthening AFIRMA’s technical capacity. Mr. Escobedo brings to the project over 20 years of experience in microfinance in Latin America, having played an important role in developing the renowned *Caja Municipal de Ahorro y Credito (CMAC)* System in the competitive Peruvian microfinance market, and more recently serving as General Manager of *CMAC Arequipa* one of the region’s most successful MFIs. Prior to joining AFIRMA long-term, Mr. Escobedo had worked short-term on the USAID-funded SALTO microfinance project that DAI manages in Ecuador and for AFIRMA in quarter 3, he carried out a technical consultancy with FinComún to help adjust their savings products and overall approach to savings mobilization. Mr. Escobedo will continue to provide direct technical assistance to partner MFIs as needed, while also managing the work of short-term national and international consultants.
- **Management support from Nate Bourns.** Mr. Bourns was on the initial diagnostic team and subsequently supported the project implementation on an intermittent basis over quarters 2 and 3. Mr. Bourns developed an approach to monitoring and evaluation of the project, and began implementing the tool designed for monitoring Task 1. In July DAI consultant Francisco Hernandez worked with Mr. Bourns to obtain performance data from AFIRMA partners and consolidate and analyze the data.
- **Budget Modification with USAID.** USAID requested an adjusted budget in order to add the position of Deputy Chief of Party, deemed necessary in order to manage the intense level of technical assistance contemplated as a result of the inclusion of 12 partner MFIs (as opposed to

the originally-envisioned 6-7). In July USAID formalized the first contract modification, approving the modified budget and addition of Nathanael Bourns from DAI to fill the position of DCOP.

- **Addition of local administrative staff in place of a project driver** – Given the volume of administrative work required to mobilize and support a large and growing number of national and international consultants, and the dispersed area over which AFIRMA partners operate AFIRMA (managing to the current “other direct cost” line item of the budget) hired Francisco Carbajal in quarter 4 to handle project accounting, working closely with office manager Adriana Cedillo. This position was in place of the budgeted project driver (a car was also budgeted) since it was determined that the driver’s coverage (given the number of consultants going to various distant locations) would be minimal and the project would continue to rely heavily on local transportation services.
- **Year 2 Work plan.** On August 25, 2005 the project held a one-day retreat to initiate planning for year two of AFIRMA, focusing on the tasks cited above and establishing agreement on the team’s vision for each one. Present at the retreat were USAID CTO Geoffrey Chalmers, AFIRMA Chief of Party Fernando Fernandez, Senior Microfinance Specialist Willy Escobedo, Deputy Chief of Party Nathanael Bourns, Training Specialist Claudette Martinez, Administrative Manager Adriana Cedillo, and USAID/AFIRMA Intern Virginia Brandon. This planning process was used to develop the AFIRMA year 2 work plan. One important result of the retreat, is that in order to maximize the impact of project resources (human, financial and time) the team must further integrate project components as more time and resources are dedicated to tasks beyond institution-building.

4.1 AFIRMA BI-ANNUAL PARTNER MEETINGS AND TECHNICAL WORKSHOPS

At the AFIRMA retreat on August 25, the team reaffirmed the value of holding regular meetings to share lessons learned, market information, performance indicators, and to plan and prioritize joint sector initiatives. However, it was also recognized that our partners are currently required to attend too many meetings and conferences, so AFIRMA will hold less frequent general meetings (quarterly meetings were originally planned), and hold technical workshops as opportunities/needs present themselves. Meetings will be participatory whenever possible, and AFIRMA will obtain regular and systematic feedback from participants.

In year 2 AFIRMA will organize the following meetings:

- January 2006 AFIRMA bi-annual meeting – Claudio Gonzalez-Vega will present findings from the OSU market study, Miguel Llenas will present the credit information services activity, and Nathanael Bourns will present the performance monitoring information.
- Technical Workshops - based on interest and recommendations obtained at the January bi-annual meeting, AFIRMA will consider holding one or more workshops on technical topics of interest/importance to partners.
- AFIRMA Bi-annual meeting and planning Workshop. In July 2006, AFIRMA will hold a group planning workshop to prioritize industry-level initiatives for year 3.

5. ANNEX A – PROJECT INDICATORS

The indicators for Task 1 are shown in Table 3 in consolidated form, and most are included in the charts that follow. Activities for year one concentrated on Task 1, as outlined above and AFIRMA tracked the following categories of indicators for Task 1:⁷

- **Outreach** – Indicators measure MFIs' performance serving greater numbers of clients among underserved populations with loan, deposit, and other services.
- **Sustainability** – Indicators seek to gauge MFI ability to remain in the market in the long-term, thus providing clients with ongoing access to finance.
- **Efficiency & Productivity** – important to measure and improve since Mexican MFIs are inefficient by regional standards, and inefficiency is passed to clients in high interest rates.
- **Portfolio quality** – Portfolio quality indicators monitor the performance of the MFIs' principal asset, the loan portfolio.

5.1 AFIRMA PARTNER FINANCIAL AND OPERATIONAL PERFORMANCE

Table 3 – Task One Indicators

Indicator	LOP Target	Baseline Dec. 2004	Sep. 2005	Variance
I.0 Strengthen the institutional capacity of MFIs				
I.1. Number of active clients	Increase of 500,000 active clients	455,708	595,395	+139,756
I.2. Rural clients	No specific targets set	TBD		
I.3. # of loans to female borrowers	No specific targets set	See section 5.2 below		
I.4. Number of loans < USD \$400	No specific targets set	See section 5.2 below		
I.5. Increased Points of Service	Increase points of service by 50%	299	367	+26%
I.6. Financial & Op. Sustainability	All partners Financially Sustainable	See Figure below		
I.7. Operating Expense Ratio	All partners improve efficiency	See Figure below		
I.8. Loan officer productivity	All partners improve productivity	See Figure below		
I.9. Portfolio-at-risk > 30 days	< 5% for all AFIRMA partners	9 under 5%	8 under 5%	-1
I.10. Portfolio write-off ratio	Minimize. No specific targets set	N/A		
I.11. Value of loans on schedule for repayment (using PAR>30)	Maximize. No specific targets set	98.6%	98.3%	-0.3%
I.12. Compliance w/ reg. standards	All AFIRMA partners meet requirements	2 regulated	2 regulated	-
I.13. Value of loans by AFIRMA supported MFIs (USD)	No specific targets set. Caja Libertad and AMUCSS not included (see footnote 13)	\$139,816,887	\$194,531,196	+39%
I.14. Value of loans to women (USD)	No specific targets set.	See section 5.2 below		
I.15. Number of MFIs using internationally accepted accounting practices due to project assistance	No specific targets set.	0 (new)	0 (new)	0

As shown in the “market share” charts below, Financiera Compartamos which has grown by 30% in the first nine months of 2005, while the other 11 institutions have, on average grown slightly more quickly (albeit from a smaller base), and Compartamos maintains around two-thirds of all microcredit clients among the 11 MFIs for which data is included.⁸ Overall, the 11 MFIs were serving 139,756 more clients in September 2005 than were served in December 2004.

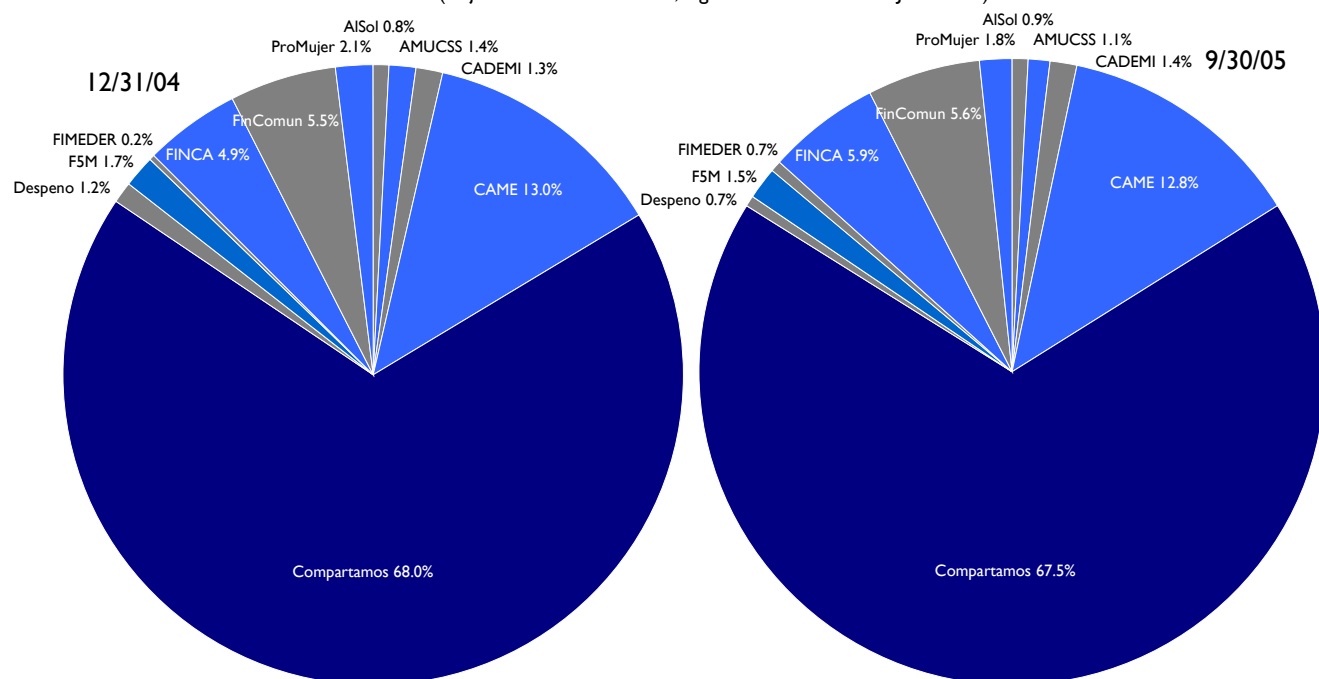
⁷ See performance monitoring plan for indicators to be tracked under Tasks 2-5.

⁸ Data for Caja Libertad is not included in the figures cited here for number of clients. AFIRMA is planning to assist Caja Libertad to segment their current portfolio. AFIRMA's preliminary estimates are that as of June 2004, Caja Libertad served around 15,000 micro and small enterprise clients with traditional cooperative credit products. Data for FINCA are for June 2005. Due to change in systems, the data for September are not yet available.

“Market share” II AFIRMA Partner MFIs December 2004 & September 2005

Total Clients – Dec. 2004: 455,639 → Sep. 2005: 595,395

(Caja Libertad not included, Figures for FINCA as of June 2005)

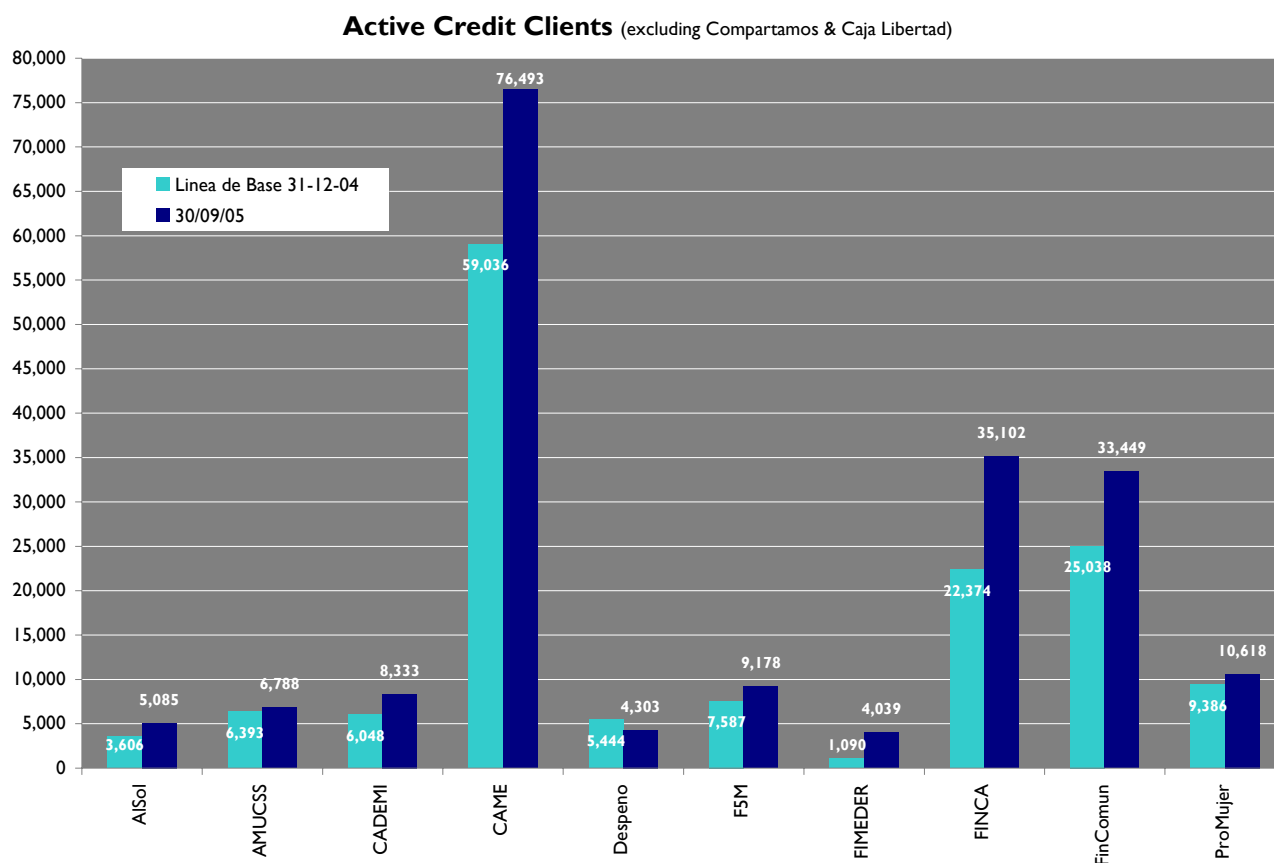


Not surprisingly, three of the four fastest growing institutions, FIMEDER, AlSol and CADEMI grew from relatively small client bases, although FINCA Mexico has grown by 57% in 2005 from a larger base. FinComún, Compartamos, and CAME also continue to grow despite larger client bases. ProMujer, AMUCSS and Despeno are concentrating, with AFIRMA assistance, on building sound basis for growth in areas such as internal controls, methodological adjustments, or standardization of processes, prior to emphasizing growth.

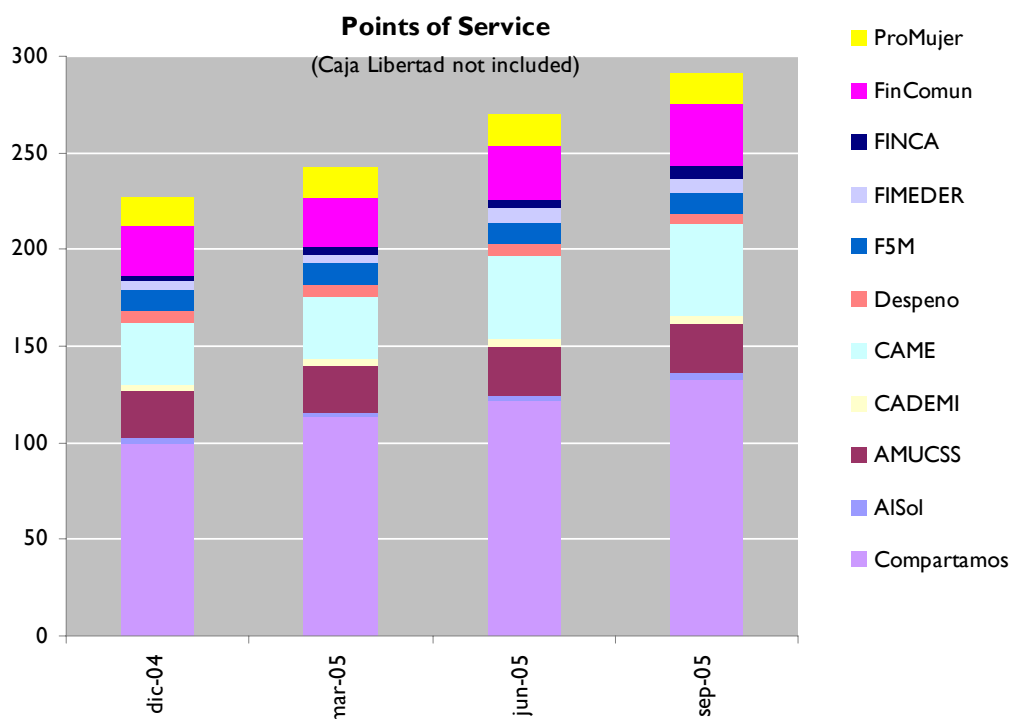
Table 4 – Growth in credit clients

	Dec-04	Sep-05	Difference	% Growth
FIMEDER	1,090	4,039	2,949	271%
FINCA	22,374	35,102	12,728	57%
AlSol	3,606	5,085	1,479	41%
CADEMI	6,048	8,333	2,285	38%
FinComún	25,038	33,449	8,411	34%
Compartamos	309,637	402,007	92,370	30%
CAME	59,036	76,493	17,457	30%
F5M	7,587	9,178	1,591	21%
ProMujer	9,386	10,618	1,232	13%
AMUCSS	6,393	6,788	395	6%
Despeno	5,444	4,303	-1,141	-21%
TOTAL	455,639	595,395	139,756	31%

The graphic below excludes Compartamos in order to better show the growth in number of credit clients among the other AFIRMA partners.



The number of points of service of the AFIRMA partners (excluding Caja Libertad) increased from a baseline of 299 to a total of 368, a 26% increase over the first nine months of 2005. Most partners added points of service and Compartamos grew substantially from 100 to 133 branch offices.

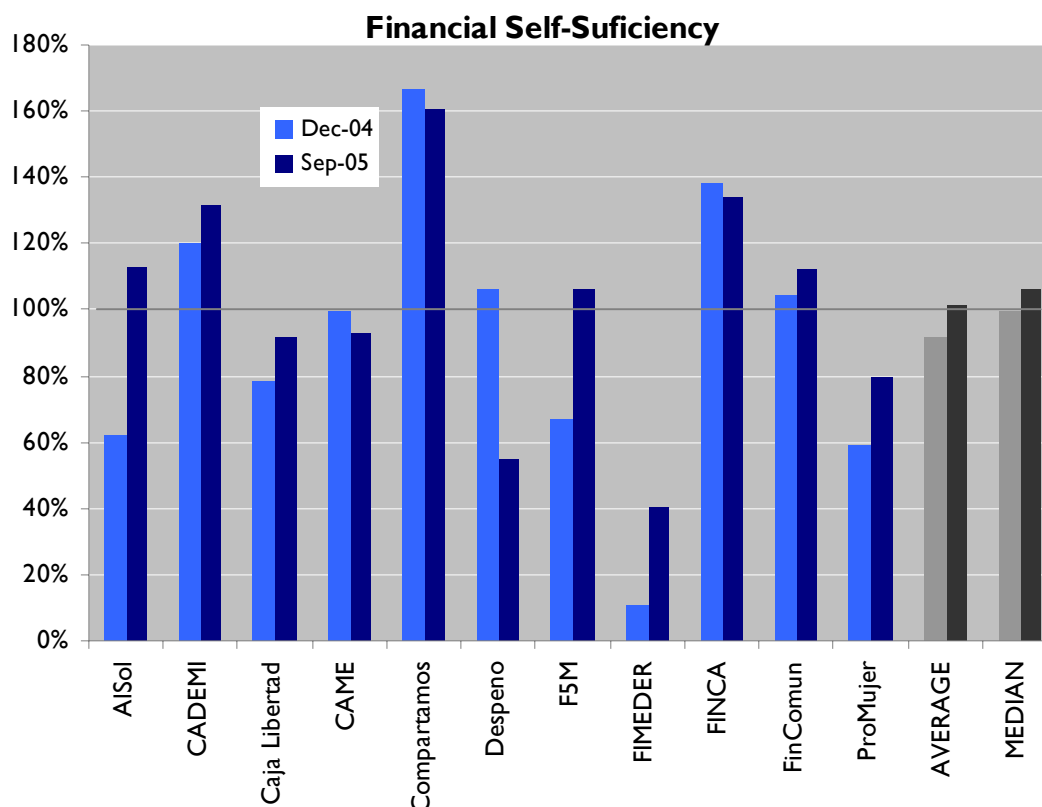


Over the year both the median and the average institution among the 12 attained **financial self-sufficiency**⁹, and although most partners improved, CAME despite solid growth in the number of credit clients served, slipped slightly while Despeno's financial results deteriorated significantly as it adjusted its operations and structure to a new market (microfinance vs. subsidized agricultural lending). The financial self-sufficiency of Compartamos declined slightly, but the MFI remains one of Latin America's most profitable. AISol switched from cash-based to accrual-based accounting, which boosted recognized income from the loan portfolio in September. It is also worth noting that since standard calculations are used for this indicator, in which a single "market" rate of funding is applied to funding liabilities.¹⁰ The adjustment varies depending upon the structure of the balance sheet and the actual cost of funding. For instance, the adjustments affects Caja Libertad the most because they mobilize funds at a rate significantly below the "market" rate that AFIRMA uses, and this adjustment along with an adjustment for loan loss provisioning¹¹ results in a lower level of financial self-sufficiency.

⁹ The standard CGAP definition is applied: operating revenue (excluding donations) is divided by adjusted operating expenses, where adjustments are made for inflation, subsidized cost of funds, insufficient provisions, and in-kind donations.

¹⁰ AFIRMA uses the average asset price percentage rate TIEE 28 published by the Banco de Mexico, 9.48% annual as of September 2005

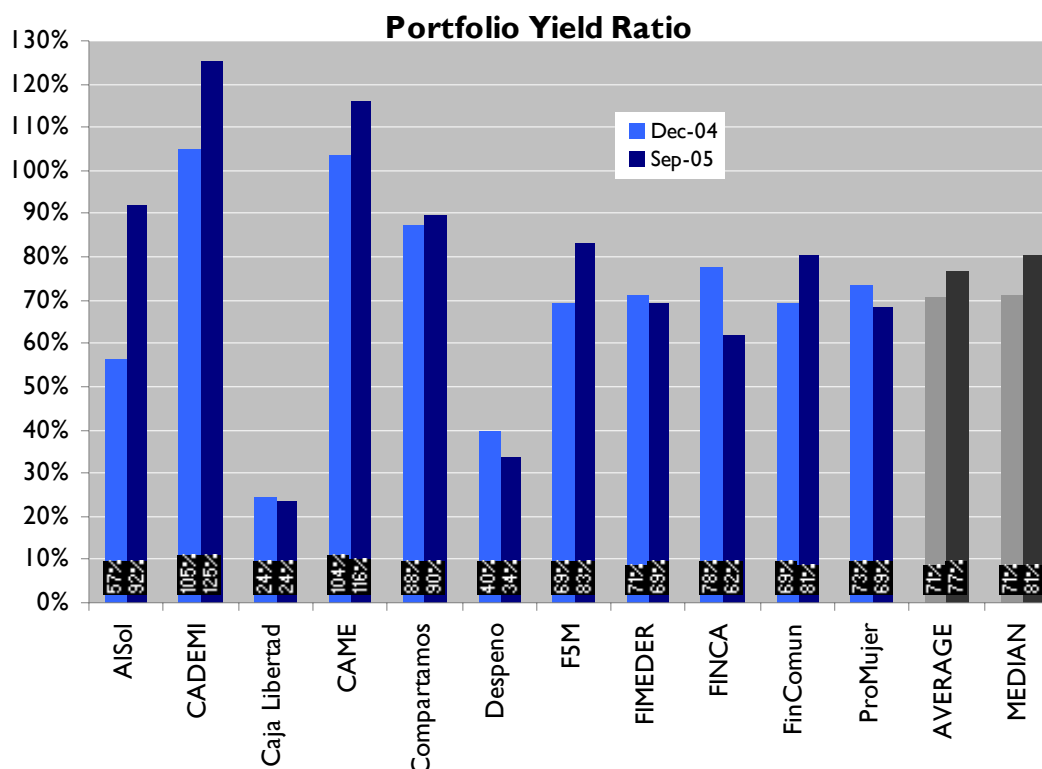
¹¹ CL provisions at rates lower than the CNBV standard and has a portfolio-at-risk over 30 days of 11%.



As the financial Self-sufficiency chart shows, there is significant variance among the partner institutions in terms of their ability to cover adjusted operating expenses with operating revenues.¹² Relatively high levels of financial self-sufficiency have been attainable in Mexico due in large part to the very **high levels of portfolio yield** that the MFIs enjoy, as shown in the portfolio yield ratio chart below.

The high portfolio yields reflect higher average interest rates charged to microfinance clients in Mexico as compared to other countries in the region. The 30 MFIs that MicroRate tracks in Latin America had, on average, a portfolio yield of 37.6% as of December 2004, well below the average of 76.8% among 11 AFIRMA MFIs in September 2005. Also, it is worth mentioning that the MicroRate averages are inflated by Compartamos and FinComún, the only representatives of Mexico among the MicroRate 30, which have the two highest portfolio yield ratios among that group of institutions.

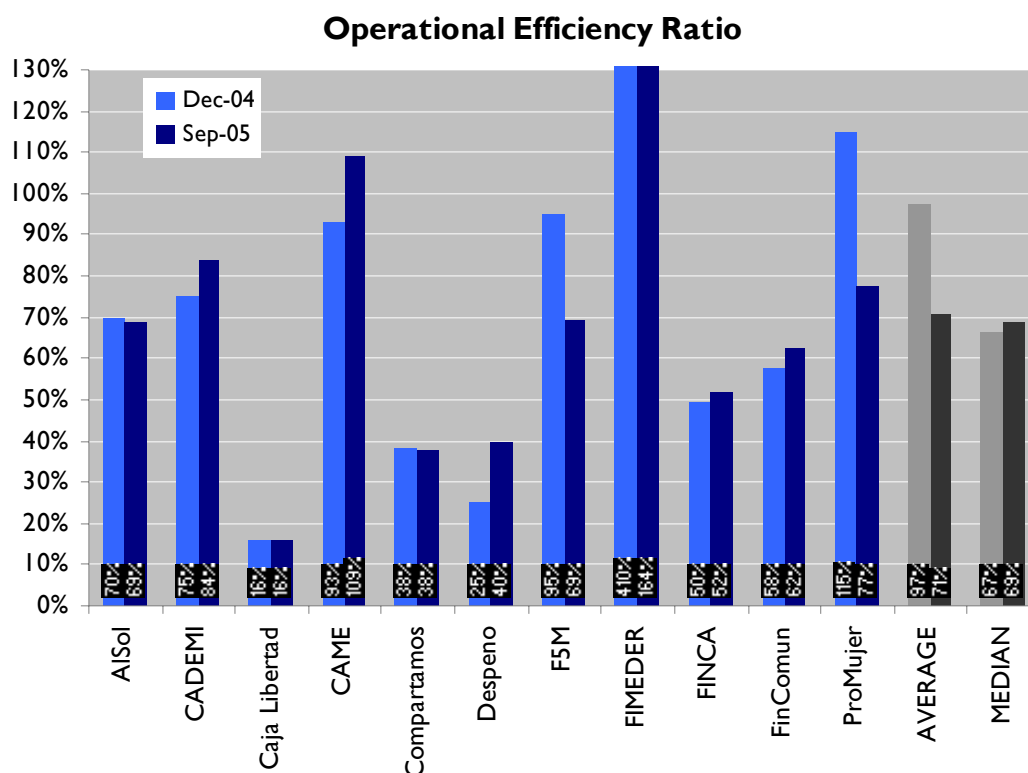
¹² AMUCSS has not yet implemented a standard accounting system among its microbanks and financial information was not available as of October 2005. Also, it is important to note that until September 2005, AISol used cash-based accounting, as opposed to accrual accounting (used among the other 10) which makes its indicators uncomparable to the others for prior periods.



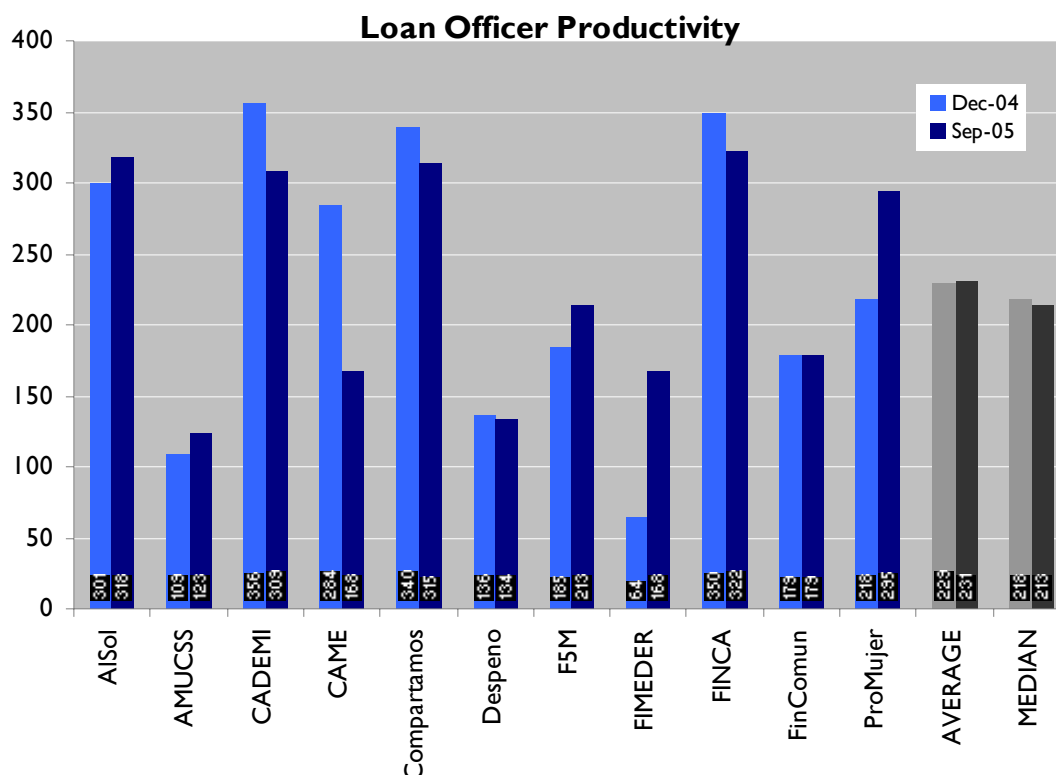
In general, the high portfolio yields cover **inefficient cost structures**, as reflected in the operational efficiency chart. As of September 2005, both the average and the median operational efficiency (personnel and administrative expenses divided by average gross portfolio) among the 11 MFIs is over three times higher (less efficient) than the regional average reflected in the MicroRate 30 of 19.1% as of December 2004.

Although the institutional average operational efficiency has improved significantly, this is due largely to FIMEDER (which improved from over 400% to a still extremely high ratio of 168% as the portfolio grew), although Fondo 5 de Mayo and ProMujer also showed marked improvement. The median institution, meanwhile, has become less efficient. Caja Libertad, with its large portfolio and without the high operational costs consistent with microcredit lending methodologies, remains by far the most efficient institution by this measure.

AFIRMA believes that this indicator will improve naturally over time as partners grow (since the denominator of this ratio is the average gross loan portfolio) and, importantly, as staff productivity figures increase.



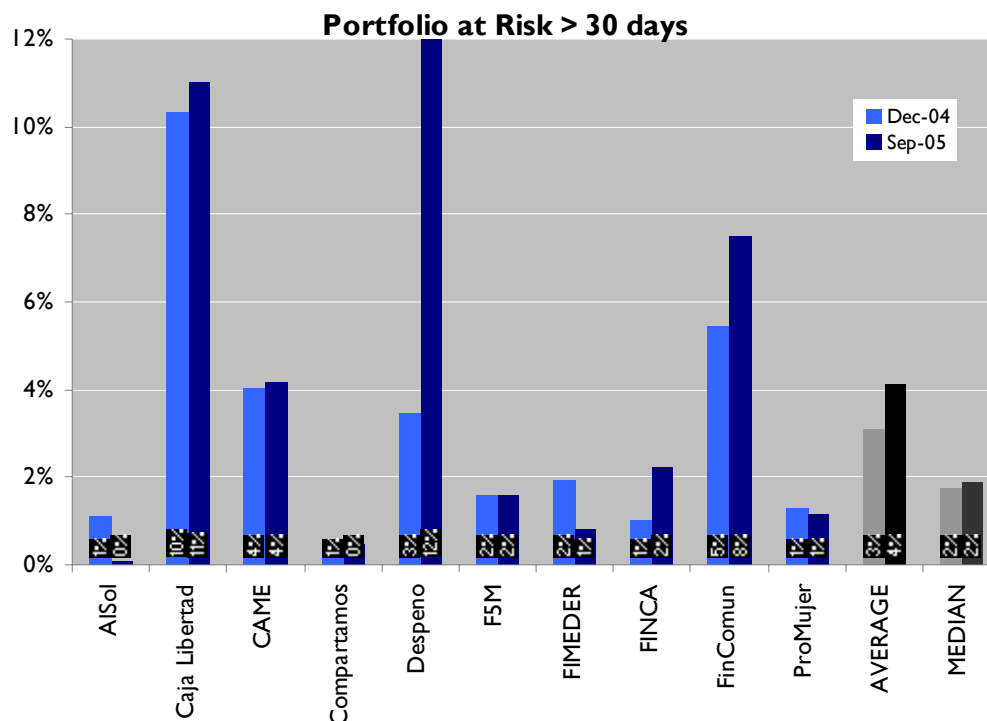
As shown in the loan officer productivity chart, few of the AFIRMA partners MFIs attain levels of loan officer productivity approaching international standards. The average for the MicroRate 30 was 309 clients per loan officer as of December 2004, while the AFIRMA average was 226. Declines at FINCA, Compartamos and CAME have pulled the average for the group down slightly since December 2004, but all three have recently hired and are training new loan officers who will take time to attain desired levels of productivity.



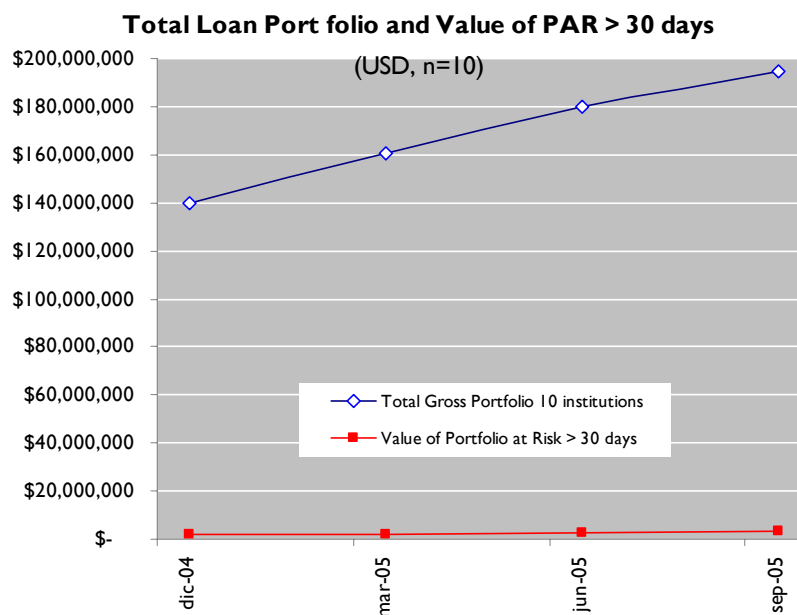
On average, AFIRMA partners maintain high quality portfolios, as measured by the indicator of **portfolio-at-risk over 30 days** (balance of loans in arrears over 30 days divided by the gross loan portfolio). Risk in the portfolio as of September 2005 for most AFIRMA partners was negligible, with the notable exceptions of Despeno, FinComún and Caja Libertad.

AFIRMA is working with FinComún to develop a comprehensive approach to risk management and to adjust the lending methodology to improve repayment rates. Caja Libertad's portfolio quality has deteriorated slightly, but the portfolio represents standard credit union lending to salaried workers which, as mentioned previously, carries much lower operational costs, but often higher loan losses. Despeno has yet to write off bad loans in its history, initially due to rules of FIRA, who financed the majority of the institution's agricultural lending portfolio. Although the Despeno still carries non-performing FIRA-backed loans on its books, the total portfolio (the denominator of this ratio) has declined significantly, inflating this indicator substantially. Further analysis is necessary to determine the quality of Despeno's active loans. CADEMI is not shown in the chart below since the MFI's current management information system does not allow for calculation of portfolio-at-risk. CADEMI uses arrears rates and AFIRMA will assist the MFI to make the change with the implementation of the new MIS. Based on the very low level of arrears, AFIRMA estimates that CADEMI has a PAR>30 days below 5%.

AFIRMA partners also have, for the most part, avoided having to write-off significant portions of their portfolio, with the notable exception on FinComún, which wrote-off an extremely high 10% of its non-performing portfolio in March 2005.



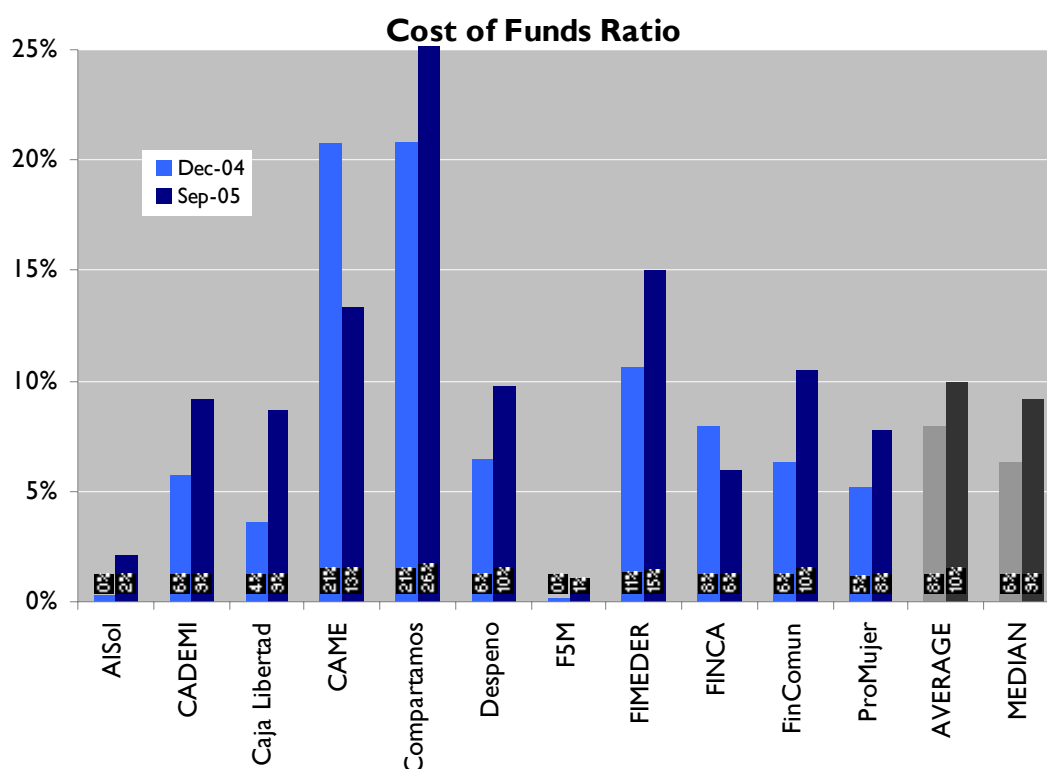
The combined portfolio of AFIRMA partners has grown from USD \$139,816,887 to USD \$194,531,196¹³ in the first nine months of 2005 (39% growth), and the aggregate portfolio is of very high quality, as shown below. Both indicators are heavily influenced by Compartamos.



¹³ Caja Libertad and AMUCSS are excluded here. The total portfolio of Caja Libertad is not included here due to the difference in target market from the rest of the AFIRMA partners. The total gross loan portfolio of CL in Dec. 2004 was USD \$243,593,895 and grew to USD \$322,536,111 as of September 2005. Including CL, the total portfolio in Sept. 2005 is USD \$517,267,047. AMUCSS does not have data available on their gross loan portfolio.

Finally, the **cost of funds ratio** (interest expense/average funding liabilities) has risen for almost all of the AFIRMA partners (except CAME) reaching levels equivalent to those of the MicroRate 30 (December 2004).

However, the maintenance of high interest rates charged on loans can be explained by the need to pay for inefficient cost structures, as mentioned previously, rather than any dramatic rise in the cost of funds.



5.2 ADDITIONAL OUTREACH DATA

The information below shows lending by AFIRMA partners to female clients and loans under USD \$400, a proxy indicator that USAID uses to get a sense for lending to poorer clients.

As shown in Table 5 below, female clients make up the majority of all of the clients of AFIRMA partner institutions, representing 80% of the total clients with a loan outstanding as of September 30, 2005. The weighted average percentage of female clients is influenced by Compartamos, which has 97% female clients. Still, the institutional (un-weighted) average among the 11 institutions that reported data, is a high 78%.

Of the USD \$ 507,175,818 in gross portfolio outstanding¹⁴, female clients hold \$325,006,040, or 64% of the total outstanding balance. The institutional (un-weighted) average among the 11 institutions that

¹⁴ Using the exchange rate of 10.80 pesos per USD on Sept. 30, 2005 and including the entire Caja Libertad portfolio.

reported data, is 71%. In other words, the average AFIRMA partner has 71% of its total outstanding portfolio in the hands of female clients.

Table 5 AFIRMA Partner Lending to Female Clients - September 2005

	# Active Female Credit Clients	Total Active Credit Clients	% Female Clients	Gross portfolio outstanding with female clients (USD)	Total Gross Portfolio outstanding (USD)	Female % of gross portfolio
AlSol	5,085	5,085	100%	\$573,418	\$573,418	100%
Amucss	3,521	6,788	52%	\$1,156,059	\$2,223,190	52%
CADEMI	8,333	8,333	100%	\$781,745	\$781,745	100%
Caja Libertad	112,739	228,616	49%	\$159,054,478	\$322,536,111	49%
Compartamos	395,232	402,007	98%	\$139,976,852	\$144,227,660	97%
Despeno	2,960	4,303	69%	\$630,422	\$2,462,500	26%
F5M	6,670	9,178	73%	\$2,257,933	\$3,843,879	59%
FIMEDER	2,444	4,039	61%	\$591,895	\$1,010,141	59%
FINCA Mexico	33,110	35,102	94%	\$7,661,879	\$8,103,404	95%
FinComun	20,452	33,449	61%	\$10,578,181	\$19,670,592	54%
ProMujer Mexico	10,618	10,618	100%	\$1,743,177	\$1,743,177	100%
Totals	601,164	747,518	80%	\$325,006,040	\$507,175,818	64%

* Data for Caja Libertad includes the entire portfolio, much of which is consumer lending. Data for CAME was not made available. Value of portfolio outstanding with female clients estimated for Caja Libertad and AMUCSS based on percentage of female clients.

The percentage of loans under \$400 is higher than one might expect in Mexico, given higher levels of per capita income than most of Latin America, where original loan sizes among tend to be larger (at least among leading MFIs in the region). This is probably due in part to the current predominance of village bank (or similar) lending among the AFIRMA partners (Compartamos, FINCA, CAME, ProMujer, AlSol), where loan sizes per individual client are generally smaller than individual loans, which has become more widespread throughout the rest of Latin America. Data reported for September 2005 are presented in table 6 below.

Table 6 – Active Clients with Loans < \$400 - September 2005

	# Clients w/ initial loan amounts < \$400	Total Active Clients	% of clients with loans < \$400
AlSol	3214	5,085	63%
AMUCSS	2,121	6,788	31%
CADEMI	1,796	8,333	22%
Caja Libertad	3,855	228,616	2%
Despeno	1,902	4,303	44%
F5M	1,303	9,718	13%
FIMEDER	3,146	4,039	78%
FINCA Mexico	18,621	35,102	53%
FinComún	6,168	33,449	18%
TOTALS*	42,126	334,893	13%

*Partial totals. Data for CAME, Compartamos and ProMujer was not available.

The data shown above is incomplete, and the existing figures are influenced by Caja Libertad, which has many clients, very few of whom had original loans for less than \$400. Excluding Caja Libertad, 36% of all original loans are under \$400 among those who reported. The three institutions for whom data was not available at the writing of this report, Compartamos, Came, and ProMujer, all have a high percentage of loans under \$400. The average outstanding loan *balance* (in USD) of these three as of September 2005 are:

- Compartamos: \$359
- ProMujer: \$164
- CAME: \$158

Given high portfolio quality and high growth rates, which would indicate that a large percentage of the outstanding loans (and therefore more of the gross portfolio) are early in their repayment cycles, AFIRMA estimates, conservatively, that 50% of the Compartamos clientele and 75% of the CAME and ProMujer clientele have initial loan amounts under \$400. If this is correct, filling out the same chart as above shows that over a third of all AFIRMA partner loans have an original balance under \$400. If Caja Libertad is excluded from the calculation, roughly half of all loans have an original balance under \$400.

**Table 7 – Active Clients with Loans < \$400 - September 2005
Including AFIRMA Estimates***

	# Clients w/ initial loan amounts < \$400	Total Active Clients	% of clients with loans < \$400
AlSol	3,214	5,085	63%
Amucss	2,121	6,788	31%
CADEMI	1,796	8,333	22%
Caja Libertad	3,855	228,616	2%
CAME*	53,545	76,493	70%
Compartamos*	201,004	402,007	50%
Despeno	1,902	4,303	44%
Fondo 5 de Mayo	1,303	9,178	14%
FIMEDER	3,146	4,039	78%
FINCA Mexico	18,621	35,102	53%
FinComun	6,168	33,449	18%
ProMujer Mexico*	7,433	10,618	70%
Totals	304,107	824,011	37%

*Data for CAME, Compartamos and ProMujer is estimated by AFIRMA as explained above.

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